

The Northern Trust Company
50 South La Salle Street
Chicago, Illinois 60675
(312) 630-6000



Northern Trust

Credit Policy

June 13, 2005

(Docket No. OP-1227)
Ms. Jennifer J. Johnson
Secretary, Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Docket No. 05-08,
Mailstop 1-5
Office of the Comptroller of the Currency
250 E Street, SW
Washington, D.C. 20219

Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G. Street, N.W.
Washington, D.C. 20552
Attn: No. 2005-14

RE: Comments on the Interagency Proposal on the Classification of Commercial Exposures
(70 Fed. Reg. 15681 (March 28, 2005))

Ladies and Gentlemen:

Northern Trust Corporation appreciates the opportunity to comment to the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation (collectively, the "Agencies") on the *Interagency Proposal on the Classification of Commercial Credit Exposures*, 70 Fed. Reg. 15681 (March 28, 2005) (the "Proposal").

Northern Trust Corporation ("Northern Trust") is a multi-bank holding company with its headquarters in Chicago, Illinois. The corporation has a growing network of offices in 17 U.S. states, international offices in six countries, and over 8,000 employees worldwide. Northern Trust had assets totaling \$45 billion and trust assets under administration totaling \$ 2.6 trillion as of December 31, 2004. Northern Trust conducts its global activities through The Northern Trust Company, an Illinois-chartered bank, four national banks, a federal thrift institution, an Edge Act subsidiary, and a number of non-bank subsidiaries.

General Comments:

Northern Trust implemented a two tier rating system effective January 1, 2005 that contains both a Borrower and a Facility Rating. It welcomes the Agencies' efforts to clarify the differences that may exist as to interpretation of the current rules and the ability to align its rating system with the proposed regulatory framework.

Specific Comments:

The proposed "Loss" rating should be clarified. In past practice the Agencies rated some Shared National Credits ("SNC") at loss estimates exceeding 30% but less than 100%. This applied particularly to so called "split rated" SNCs. Is it the intent of the Agencies to eliminate "split rated" credits and that a "Loss" rating will mean a loss of no less than 100%?

During the discussion of the Proposal on the 4-19-05 conference call among the Office of the Comptroller of the Currency- Midsize Bank Supervision and several banking institutions, it was implied that a non performing loan ("NPL") could be rated "Weak", the current equivalent of which is "Substandard", rather than "Default" provided that none of the "Default" conditions as outlined in the Proposal apply. Northern seeks clarification on this point.

It is Northern Trust's understanding that, in accordance with current Basel II ANPR guidance, the Facility Rating may be raised by substituting the guarantor rating for that of the borrower, provided the guarantor has the capacity and the willingness to pay and is an entity that can be rated. Please clarify in the Proposal how a guarantor rating can be substituted for a borrower rating and under what conditions.


If an institution were to classify a loan as a NPL if there is *any* risk of loss, other than "Remote Risk of Loss", it would appear that although classified as a Borrower Rating "Default" the loan could be carried as a performing loan. We would welcome your clarification on this matter.

Recognition of loss. Northern Trust assumes that the practice of recognizing losses promptly upon identification will not be prohibited under the Proposal. For example, at the time of loss recognition an institution might either (1) charge off the loss as uncollectible or (2) establish a specific reserve under FAS 114 for the amount of the recognized loss. Upon the occurrence of a "confirming event", such as a confirmed plan of reorganization under a chapter 11 bankruptcy proceeding, or the liquidation of an asset and distribution of proceeds, the loss would be charged off.

Real estate loans. Although the Proposal does not address real estate loans, Northern Trust understands that commercial real estate loans are not intended to be covered by the Proposal, particularly in the section for Asset-Based Lending. Northern Trust also understands that residential real estate lending for owner occupied or investor owned properties are not included in the Proposal, as long as they are not SNC's. Your confirmation of this understanding would be appreciated.

Northern Trust appreciates the opportunity to present its comments on such an important proposal, and we thank you for considering our views. If you have any questions or comments on this letter, please feel free to contact me at (312)444-7636.

Yours truly,



Friedrich H. Burian
Senior Vice President
Credit Policy, MB 10
The Northern Trust Company
50 South La Salle Street
Chicago, IL 60675